



TOWN OF WALPOLE
COMMONWEALTH OF MASSACHUSETTS

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Town Administrator

Michael E. Boynton

MEMORANDUM

To: Board of Selectmen
Finance Committee
Capital Budget Committee
School Committee

From: Michael E. Boynton,
Town Administrator

Date: February 6, 2006

Re: Fiscal Year 2007 Budget Proposal & Message

One year ago at this time, we were preparing for an unfortunate budget that simply maintained the status quo. Today, many of us would see the status quo as an achievement of success. One more time we are faced with meeting the demands and needs of this community of over 23,000 with expenses that outpace revenues. Health insurance costs are increasing at double digit percentages yet again and there seems to be no end in sight. Mandates that add expenses continue to plague all communities, yet the corresponding mandate funding has not always been there. We are in a cycle that must be interrupted, and it will require a variety of new approaches to the way we operate. There is no way to sidestep this issue any longer. The system is broken, and it is everyone's responsibility - local and state leaders, employees, and citizens alike - to work together fix it.

This is not the first time Walpole has faced financial adversity. As recently as 2001, the Community came together to close a budget gap of 3.7 million dollars with added local revenue. In 2003, nearly \$1.8 million dollars was cut from our budget to close a gap caused by a massive cut in state aid. In the two years that followed, every available source of revenue, both reoccurring and one-time, was pooled to keep operations running at leveled service. And as we gather this year, the proverbial well has run dry and cuts in staff and expenses are the immediate solution to establish a balanced budget. It is indeed true that our Fiscal Year 2007 budget will rise over FY'06 levels, but that increase in revenue will not be sufficient to meet existing and projected needs. However, there are unique opportunities here as well. There is an opportunity to be creative with staff and programs. There is an opportunity to explore the services we provide to identify both cost savings and revenue options. And most importantly, there is an opportunity to rally our citizenry to help put an end to special interests that have stifled and stymied meaningful reform and change at all levels of government for far too long. These opportunities may not solve the entire problem, but I am certain that failure to take advantage of them will solve none of it, and in fact will make the challenges grow larger and more burdensome every year going forward.

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As stated in the past, the challenges we deal with are not Walpole's alone. Many communities are struggling with the same financial concerns found here. As such, we need to enhance the partnerships we share with other communities to make the voice of change be clearly heard. We must agree to put everything on the table, especially system reforms. Reforms of our state funding of Chapter 70 school aid for cities and towns. Reforms of municipal financing rules allowing towns like Walpole to reduce the overwhelming reliance we have on property tax revenues. Reforms of municipal health insurance rules and system designs to reduce costs for employers and a vast majority of employees. Internal reforms of our departmental operations, including consolidations, cuts and even expansions where appropriate. Simply put, reforms that force each of us to "think outside of the box" and realize that without them, going forward everyone loses, but with them, everyone can win.

In terms of recommendations of possible reforms, I offer the following:

- Legislative support and action designed to allow cities and towns greater flexibility in making changes to health plan designs. One such concept exists in the Governor's budget whereby communities could elect to establish a Group Insurance Committee that would have broad authority to set and manage these plans. Repeating an earlier concern that costs are rising uncontrollably, this measure would restore some oversight to towns without being pressured by the challenges of decision bargaining. This is the system that currently exists for the state government.
- Legislation that would cap annual health insurance premium increases to more manageable levels. A rate-setting concept such as that in place for auto insurance carriers could be considered.
- Legislation that would prohibit the assessment, charge, or levying of any new fees, fines, costs or mandates upon municipalities by any state agency or department as of July 1, 2006, unless the change is accompanied by a corresponding revenue source. Communities need additional state funding, not the reverse.
- Consideration of the exemption of the annual overlay account from the levy. Also, a review of the State's sales tax program to determine if added relief can be afforded to communities such as Walpole that are home to large retail centers that attract patrons from a multitude of communities and at times have added service demands.
- Introduction of a long-overdue overhaul of the State's Chapter 70 program to finally bring equity to school aid. Recent research by our own School Committee indicates that the difference in per-pupil Chapter 70 contribution rates is over \$9,300 state-wide. Walpole currently ranks 247th out of 329 districts in this funding comparison.
- Likewise, the time has arrived to address soaring costs related to special education. Districts should be required to cover all costs related to curriculum and teaching needs rather than medical or physical costs. Those costs are more appropriately the responsibility of private insurance where available or within the Medicaid program.

These are just a few ideas. They clearly are not the complete picture, and there will be some who will disagree with one or all, and if there are better ideas out there, then we should all be willing to support any change that will enable our government to work more efficiently.

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This Fiscal Year 2007 Budget proposal totals \$57,998,846. This reflects an overall increase of \$2.8 million or just over 5% from FY'2006. The largest percentage increase in this plan, once again, is within the assessments & fringe benefits line, up 13.4%. That increase represents \$1.22 million of the \$2.8 million dollar budget change. In looking more closely at our fixed costs, such as Tri-County, solid waste, debt and insurances, nearly \$1.37 million of available new revenues are required to meet those costs. Thus, all other facets of our operations must share \$1.43 million to deal with increased costs next year. To highlight the point further, in FY'07, we are projecting that the property tax levy, our only source of guaranteed new revenue from year to year, would rise by roughly \$988,000. That is approximately \$232,000 less than the assessments and fringe benefits increases alone. As such, budgeted revenues are not sufficient to address all departments carry-forward expenses, which has resulted in the budget reductions found within this proposal.

In early January, we came together to identify and discuss the gap between anticipated revenues versus expenses heading into FY'2007. Department budget requests had been reviewed and trimmed to reflect service delivery needs into the next year. At that time, it was projected that state aid would be level funded and that health insurance costs would rise by an aggregate of 20%. Given that scenario, a budget deficit of more than \$2.4 million was forecasted. Under our operation allocations for budgeted funds, that deficit would be covered through cuts of 66% for the school department and 34% for municipal operations. The cuts necessary to cover this deficit would have far exceeded those made just three years ago. Further, the effects would be worse as most departments that were cut in FY'04 had not fully recovered through restoration of staff or expenses. However, the revenue picture has brightened slightly since then. Local aid figures contained in the Governor's House 2 budget represent approximately \$1.3 million dollar increase for Walpole. Also, preliminary insurance rates indicate the premium increase for FY'07 will more likely be in the 15% rather than 20% level. That is a savings of over \$300,000 from early estimates. Utilizing these new figures, the projected deficit, therefore, for FY'2007 is just under \$900,000. However, it is critical that the Legislature fund, at a minimum, Walpole's \$1.3 million increase in the Governor's House 2 budget to avoid a greater deficit and further cuts.

On the municipal side of the ledger, further overall budget reductions totaling \$303,931 have been made from January 3rd estimates. The 34% target was \$302,384. This reduction has been accomplished through a variety of ways, including the elimination of 4 new positions, 3 existing positions, reduction in hours for 2 others, and various cuts to departmental expense budgets. These cuts will require department heads and staff to become creative with projects and tasks to ensure that services are not unnecessarily impacted. Yet it is unrealistic to assume that we will make major enhancements to existing programs. For example, the elimination of 2 positions proposed within Parks & Cemeteries will hamper our ability to reach the goal of improvement of our fields and grounds identified by the Board of Selectmen. The proposed new positions that have for now been eliminated have been discussed for several years, and it was hoped that this would be the year that they would become a reality. As we move forward, we must make every effort to pursue these, as well as other lost jobs, if new revenue sources are identified.

For our school department, a reduction of nearly \$590,000 will most certainly result in cuts to personnel and programs, as well as an eye toward fee increases yet again. While it is little consolation given the current outlook, it should be noted that virtually all fees generated through

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school charges remain within the school budgets and will support school programs. It was projected last fall that a general fund budget allocation of \$28.59 million would be needed to fully fund contracts and school operations into FY'2007. At current, the available revenue projects an FY'07 school budget of slightly more than \$28 million, thereby creating the funding gap there. In addition, increased special education costs approaching one-half million dollars are creating an added burden for school leadership to overcome. As we work together during the coming months, it is hoped that additional savings and revenues will be realized to offset a portion of these budget demands.

However, not all represents a cut or reduction. I am proposing that we take the opportunity to consolidate some operations as well. The creation of a Community Development Department is one example. Rather than funding two management level positions of Town Planner and Economic Development and Grants Officer at a combined cost of nearly \$140,000, we can reorganize the administrative operations of those departments and fund one position, a Director of Community Development and Planning, at a salary cost of roughly \$73,000. In addition, such a position would continue to foster the overall goal of economic development in Walpole, would provide for day-to-day oversight and coordination of part-time staff, provide planning and technical input for the various permitting boards in town, and ensure Walpole is an active participant in regional planning initiatives. Elsewhere, despite the elimination of a technical position in the Engineering Department, we are pursuing added training for existing staff and budgeting for outside professional services to be sure that GIS services are not sacrificed. In short, all staff across all town departments will be asked once again to do more with less, and I am confident that their dedication, professionalism, and commitment to their community will result in continued success. As stated above, this budget process is mandating that each of us accepts a creative, or "outside the box" approach to our operations as a whole.

All collective bargaining agreements were settled last year and will enter the second of their three years in FY'2007. Most set cost of living adjustments at 3%, and municipal non-union COLA's have also been set at 3% by the Personnel Board.

The Fiscal Year 2007 budget will be funded from various revenue sources totaling \$59,797,044 dollars. As noted earlier, the largest item to be funded through these revenues is the general fund budget. We will also allocate monies for the local Charter School, state and county assessments, and our annual overlay assessment. Of the revenues that we are projecting, once again the largest amount is via the property tax representing 72.5% or \$43.39 million dollars of total income to the town. This is down ever so slightly from last year as aid from the state will play a larger role in FY'07 increasing from 14.3 to 15.7 percent of revenue. Also in FY'2007, we have projected our local receipts, the income from fees, fines, permits and interest, to reach \$5.4 million. It is anticipated that motor vehicle excise revenue will reach \$3.3 million, our interest income will rise by \$75,000 due to higher interest rates, and town fees will increase by \$10,000. Also included in our local receipts projection is a proposed new fee for use of our compost facility on Robbins Road. After reviewing costs associated with the operation of the facility, it is suggested that an annual fee of \$25 be set as a user fee to help recover those costs. We are also projecting a new source of revenue for FY'2007 through the efforts of our Town Accountant and Finance Director, where we can expect to receive refunds on fuels excise payments made in the purchase of vehicle fuel. This amount is projected at \$10,000 and yet while not a solution to our shortfall, every dollar helps.

Some revenues, however, will not reach FY'06 levels. One such case is the use of bond premiums received during the last two years when large borrowing notes were sold by the Town. In the current year, we have been able to use over \$282,000 to help offset the cost of various debt projects. In FY'07, that amount will drop to just over \$51,000. Also, a \$100,000 decrease in supplemental assessments is forecasted. These are dollars that can be assessed by the Board of Assessors for new construction as they come online. With a decline in town-wide construction, as evidenced by a nearly \$200,000 decrease in New Growth, the ability to generate "new" income has also declined. These reductions have added to our financial distress. Fortunately though, we are able to project a revenue jump of \$100,000 from ambulance receipts. With the full-year operation of two ambulances and the provision of service at advanced life support levels, our emergency medical services have generated annual revenues approaching \$800,000, up from \$315,000 just three years ago. These funds have allowed us to help offset the cost of additional personnel and also allow for the purchase of EMS vehicles and equipment without a reliance upon tax dollars.

Fiscal Year 2007 marks the second consecutive year that \$500,000 in prison mitigation funds are used as a projected source of revenue. For three straight years, we have received these funds through the hard work and perseverance of our legislators on Beacon Hill. We will rely on their diligence to secure this appropriation again this year. One point is certain, however, as we move into FY'07 and beyond, we must begin to address the use of these funds as revenue and seek a permanent replacement. In an ideal world, that would be recommended for this year. However, without a corresponding replacement for those dollars, the cuts necessary would place too great of a burden on our service delivery. Following the overall logic though, it is recommended at this time that no other sources of one-time dollars, including Free Cash, be used as a funding source for FY'2007. As our undesignated fund pool, specifically Free Cash, has decreased over the past two years, the utilization of those funds on reoccurring expenses is only a temporary solution that will generate long-term challenges. It is a practice we must reverse starting now.

The usage of one-time dollars, such as Free Cash, is however the perfect fit for our annual capital improvement program. At this time, it is anticipated that \$950,000 of Free Cash will be applied to the capital program to fund such items as air quality improvements at Bird Middle School, exterior repairs to Blackburn Hall, exterior door replacements at several schools, a new street sweeper, permit tracking software, a codification of town by-laws, and replacement voting booths. We anticipate the funding of a new ambulance to be funded through our ambulance account, several road projects totaling \$397,000 funded through Chapter 90, and a number of water & sewer projects, including replacement of existing garage space, to be funded through Sewer & Water retained earnings accounts. Two large projects, however, will require a borrowing of funds to be accomplished. The replacement of the roof at the older DPW Garage in the amount of \$200,000 and the facility renovation project at Town Hall are essential projects for FY'2007. The Town Hall project, consisting of a new roof, windows and HVAC system has a projected cost of \$700,000. In both cases, roof leaks are becoming far too common and are resulting in damage to other elements of the buildings. Further, in an era where surging costs of heating fuel are now the norm, it is critical that we work to improve the energy efficiency of the Town Hall building now. These are not wish list projects, but are rather "must-do" projects. Delaying them will not do anything but increase the costs. It is projected that the impact of these borrowings will not be realized in full until FY'2008, at which time approximately \$50,000 in debt

capacity will be made available, followed by an additional \$90,000 the following year. This is expected to be sufficient to cover the costs of these projects without impacting services.

It is also anticipated that the issue of a new police station will be presented for action this Spring. Last year, it was determined that a feasibility study would be the prudent course of action prior to commencing with full design. At this time, it is understood that the preliminary results of that feasibility study are suggesting that the course of action to pursue is that of a new police station on Robbins Road. Once again in this situation we are faced with an inevitable decision. It is recognized that a new facility is needed, that the existing facility can not be renovated, that the only means of funding the building is through a debt exclusion, and that the cost of construction is increasing every year. Further, it can not be argued that a delay would somehow help our current financial status. It would seem then that the time to act is now.

Aside from a spike in utility costs related to the running of the water treatment plants, no unusual changes are expected within our water enterprise fund. One new item relates to a new focus on hydrant maintenance throughout town. Weaknesses in current hydrant maintenance and replacement were highlighted in a report last fall following an August house fire. These are due in large part to the inability to direct utility crews away from existing projects to focus strictly upon hydrants. In FY'07, we are proposing the creation of a new hydrant maintenance craftsman position to address this issue. Further, \$40,000 will be allocated toward the replacement of hydrants that can no longer be repaired or serviced. This is a life-safety issue that will not wait. FY'05 that closed last June 30 was another solid year of system operations, and retained earnings for each fund realized healthy increases. Water retained earnings were certified at \$939,924 and sewer retained earnings at \$434,670. It is believed that a portion of these funds can be used for capital projects and to help stabilize rates in FY'07. On the sewer side, the annual MWRA assessment is expected to increase by approximately 14.5%, or \$238,700. This clearly is a large increase as MWRA begins to address spiking debt costs.

A review of accounts from the current fiscal year indicates all systems operating at expected levels. Our Accounting office has examined FY'06 budgets and finds no abnormalities that must be addressed at once. The usual dilemma of budgeting enough money for snow and ice appears to be with us again this year however, despite the milder and somewhat drier winter season. The main culprit this year is the high cost of salt, a cost that is up over \$2.60 per ton since last year and \$12 per ton since 2001. The impact of that increase is that the filling of the salt shed is averaging \$4,000 higher this year than last. Put another way, it costs \$61,000 to fill the shed to capacity, a task that was required at the start of this season. The materials budget for the entire year is \$90,000. As we enter the fourth straight year of deficit spending in this account, we will look toward reserves, including free cash, to cover the year end balance.

On a positive note, the mild winter has helped us avert a near-certain deficit in our heating costs. With few exceptions, all buildings are remaining consistent with budgeted amounts for heating fuels. Our Superintendent of Building Maintenance has been monitoring these accounts closely as the winter progresses. Overall, department heads have once again approached their budget management most efficiently and effectively to help avoid shortfalls. As we move through the remainder of FY'2006, we will work together with the Board of Selectmen and Finance Committee to identify and correct any problem areas.

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The annual budget process is by no means the work of one person or just a few staff to assemble. It is everyone working together to be certain that each of you is provided with the best information about accounts, operations and services so that you may make informed recommendations to Town Meeting. I extend my appreciation to all of our department heads who began their FY'2007 budgeting efforts over three months ago. I also want to recognize and thank Finance Director Mark Good, Town Accountant Arti Mehta, Appraiser Dennis Flis, Personnel & Benefits Coordinator Valorie Donohue, and Assistant Town Administrator Jim Johnson who have again played critical roles in creating this budget document. From estimating revenues, to verifying salaries & wages, to reviewing current accounts, to coordinating our annual capital budget, they have excelled once again. As always, a big thank you is due Administrative Secretary Cindy Berube for the excellent job of preparing the oversized books that contain your budgets. This truly is a team effort, and their cohesive and cooperative efforts are an outstanding example of the professionalism of the employees that serve this Town.

As I mentioned on January 3rd, I would much rather be recommending a budget that builds upon successes rather takes apart programs. However, as municipal leaders, regardless of the bottom line, it is our responsibility to find the positives in our services and staff, and build upon those. It is our responsibility to search out what is effective and efficient, and fight to make them better either through funding, reform, or both. It is also our responsibility to ensure that the tax dollars we are entrusted with are programmed to accomplish the greatest good for the community. I believe that we can get there, and in fact we are already there. Some will read or hear this message and take a position that added revenue is the answer, and yet still others will not. As such it is essential that everyone be as compassionate as they are passionate. Regardless of the final numbers, we must continue to build upon the dynamic sense of cooperation that exists today in our community. I thank each of you for all of your efforts, and again offer the services of any and all staff to assist you with your review. You have a difficult task before you this year, and we will do what we can to make that a successful task yet again.